

Message Text

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66/67

ACTION EA-09

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FM AMEMBASSY SEOUL

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C O R R E C T E D C O P Y (TEXT GARBLED THRUOUT)

E.O. 11652: N/A

TAGS: ETRD EIND GATT KS MTN JA

SUBJECT: GOJ SEEKS CURBS ON KOREAN SILK EXPORTS TO JAPAN

REF: 75 SEOUL 2892

SUMMARY: THE KOREANS AND JAPANESE FAILED TO REACH AGREEMENT ON PROPOSED CURBS ON KOREAN SILK AND SILK PRODUCTS EXPORTS TO JAPAN DURING RECENT TALKS IN SEOUL. BOTH SIDES AGREED TO MEET AGAIN IN TOKYO NEXT MONTH. WHILE THE GOJ HAS SUCCESSFULLY SLOWED IMPORTS OF KOREAN RAW SILK IT HAS DONE SO AT THE EXPENSE OF A SHARP RISE IN IMPORTS OF KOREAN SILK YARN AND FABRIC. THE ROKG MAY BE WILLING TO ULTIMATELY ACCEPT SOME FORM OF CONTROL ON SILK EXPORTS, PROVIDING THE PEOPLES REPUBLIC OF CHINA, ITS MAJOR COMPETITOR, DOES LIKEWISE; BUT THE ISSUE HAS THE POTENTIAL FOR PROVOKING RETALIATORY ACTIONS

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BY THE ROKG AGAINST JAPANESE IMPORTS. END SUMMARY.

1. A JAPANESE DEL HEADED BY ICHIRO NOGUCHI, DIRECTOR OF CONSUMER GOODS BUREAU OF JAPANESE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI) AND A ROKG DEL HEADED BY NO, CHIN-SIK (NOH, JIN-SHIK) DIRECTOR OF INTERNATIONAL TRADE PROMOTION BUREAU, ROKG MINISTRY OF COMMERCE AND INDUSTRY (MCI) FAILED TO REACH AGREEMENT ON PROPOSED RESTRAINTS ON KOREAN EXPORTS OF RAW SILK AND SILK PRODUCTS TO JAPAN DURING TWO DAY TALKS IN SEOUL CONCLUDED FEB. 9. BOTH SIDES AGREED TO CONTINUE THE TALKS IN TOKYO NEXT MONTH.

2. THE SILK ISSUE DATES BACK TO 1974. RISING IMPORTS OF RAW SILK FROM THE REPUBLIC OF KOREA (ROK) AND THE PEOPLES REPUBLIC OF CHINA (PRC), THE OTHER MAJOR SUPPLIER, APPARENTLY DEPRESSED SILK PRICES IN JAPAN. AS DEPICTED BY ROKG AND GOJ EMBASSY SOURCES HERE, THE GOJ RESPONDED TO PRESSURES FROM THE DOMESTIC SILK INDUSTRY BY DESIGNATING ONE ORGANIZATION AS THE SOLE AUTHORIZED IMPORTER OF RAW SILK IN MAY 1974. THE PRACTICAL EFFECT HAS BEEN TO SHARPLY REDUCE JAPANESE IMPORTS OF RAW SILK. THE AUTHORIZED IMPORT ORGANIZATION SOLICITS INTERNATIONAL BIDS PERIODICALLY TO IMPORT RAW SILK IN GREATLY REDUCED QUANTITIES, (KOREAN SOURCES CLAIM, IN REALITY, IT ARBITRARILY ALLOCATES ITS PURCHASES BETWEEN KOREAN AND THE PRC).

3. KOREAN RESENTMENT OF THIS DEFACTO IMPORT CURB WAS INITIALLY QUITE STRONG, BUT BEGAN TO FADE AS THE KOREANS DISCOVERED FALLING RAW WILK EXPORTS TO JAPAN WERE BEING OFFSET BY A CORRESPONDING RISE IN JAPANESE PURCHASES OF SILK YARN AND, TO A LESSER EXTENT, SILK FABRICS. THIS PATTERN IS CLEARLY ILLUSTRATED IN THE FOLLOWING DATA ON KOREAN SILK EXPORTS TO JAPAN FOR 1973-1975, EXCLUDING MINOR EXPORTS OF SILK WASTE AND SILK GARMENTS:

VALUE OF MAJOR KOREAN SILK EXPORTS TO JAPAN

	(\$ MILLIONS)		
	1973	1974	JAN-NOV 1975
RAW SILK	72.5	52.9	20.7
SILK YARN	8.0	5.0	83.1
SILK FABRIC	66.4	69.7	86.2
TOTAL	146.9	127.6	190.0

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4. BY MID-1975, THE GOJ WAS BEGINNING PRELIMINARY PROBES SUGGESTING THE NEED FOR KOREAN RESTRAINT ON EXPORTS OF THROWN SILK, A LIGHTLY PROCESSED SILK YARN, AND POSSIBLY OTHER SILK PRODUCTS, WITH "ORDERLY MARKETING" BEING A FAVORITE TERM. EARLIER DELEGATIONS WERE USUALLY PASSED OFF TO THE TEXTILE INDUSTRY BUREAU OF MCI, WHICH IS QUALIFIED TO DISCUSS ONLY TECHNICAL PROBLEMS. THE KOREANS DID AGREE TO VAGUE RESTRAINTS ON EXPORTS OF OSHIMA TSUGUMI KIMONO CLOTH IN APRIL 1975 WHICH WAS SUPPOSED TO BE A

UNIQUE CASE (SEE REFTEL FOR DETAILS).

THE RECENTLY CONCLUDED MEETING WITH THE ROKG DEL LED BY NO APPEARS TO HAVE BEEN A MORE SERIOUS ATTEMPT AT NEGOTIATION OF RESTRAINTS. AS RECOUNTED BY NO, THE ROKG DEL TOLD THE GOJ DEL THEY WERE WILLING TO TALK ABOUT CURBS ON RAW SILK AND THROWN SILK EXPORTS, BUT DO NOT WANT TO DISCUSS RESTRAINTS ON EXPORTS OF OTHER SILK YARNS AND FABRICS. THE GOJ, FOR OBVIOUS REASONS, WANTS BROADER COVERAGE. ACCORDING TO NO, THE GOJ IS, IN FACT, ALREADY RESTRICTING IMPORTS OF THROWN SILK BY VARIOUS ADMINISTRATIVE DEVICES. THE GOJ HAS ALSO ANNOUNCED HIGHER TARIFFS ON SILK PRODUCTS IMPORTS EFFECTIVE FEBRUARY 7, ALTHOUGH WE UNDERSTAND FROM LOCAL SOURCES THESE MERELY REPRESENT A RETURN TO PREVIOUS TARIFF LEVELS WHICH WERE TEMPORARILY LOWERED A FEW YEARS AGO.

6. THE GOJ IS PRESSING FOR "VOLUNTARY RESTRAINTS" BY KOREA WITH THE ROKG TRYING TO FORCE THE GOJ'S HAND BY INSISTING ANY CURBS WILL HAVE TO TAKE THE FORM OF MORE FORMAL IMPORT RESTRAINTS. THE GOJ DEL TOLD NO THEY HAD OBTAINED AGREEMENT IN PRINCIPLE FROM THE PRC IN DECEMBER, 1975 ON THE CONCEPT OF RESTRAINT IN SILK EXPORTS TO JAPAN, BUT ADMITTED THE PRC IS SO FAR UNWILLING TO DISCUSS ANY SPECIFIC QUANTITIES.

7. NO SAID THE ROKG IS VERY CONCERNED ABOUT SETTING A PRECEDENT THAT WOULD ENCOURAGE OTHER JAPANESE INDUSTRIES, PARTICULARLY IN THE TEXTILE SECTOR, TO INCREASE PRESSURE ON THE GOJ TO NEGOTIATE RESTRAINTS ON KOREAN EXPORTS, POINTING OUT THAT THE KOREAN TRADE DEFICIT WITH JAPAN IS CURRENTLY IN EXCESS OF \$1 BILLION ANNUALLY. HE ADDED THAT THE COUNTERED GOJ PLEAS CONCERNING THE POLITICAL SENSITIVITY OF THIS ISSUE WHICH INVOLVES SOME 250,000 JAPANESE HOUSEHOLDS WHO DERIVE INCOME FROM SILK CULTURE BY NOTING THAT KOREAN SILK CULTURE INVOLVES ABOUT 500,000 HOUSEHOLDS.

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COMMENT: WHILE KOREA ACHIEVED SOME MINOR SUCCESS IN 1975 IN FINDING OTHER MARKETS FOR SILK, JAPAN REMAINS VIRTUALLY ITS SOLE EXPORT OUTLET FOR BOTH RAW SILK AND SILK PRODUCTS. PRESS STORIES THIS WEEK HAVE REFERRED TO VAGUE THREATS BY KOREANS TO RETALIATE AGAINST JAPANESE IMPORTS IF THE GOJ INSISTS ON RESTRICTING SILK IMPORTS. OUR IMPRESSION AT THIS POINT, BASED ON CONVERSATION WITH NO, IS THAT THE ROKG WILL CONTINUE TO DRAG ITS FEET, BUT IT IS PROBABLY WILLING TO ULTIMATELY ACCEPT SOME MODERATE FORM OF CONTROL OVER SILK EXPORTS. HOWEVER, THE ISSUE HAS THE POTENTIAL FOR PROVOKING A RATHER STRONG KOREAN REACTION IF THE GOJ TRIES TO FORCE SEVERER CURBS THAN THE KOREANS ARE WILLING TO ACCEPT.
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